

## RENTAL/LEASE COSTS (buildings or equipment) - SUMMARY

- State and local governments: OMB Cost Circular A-87, Attachment B, paragraphs 37 and 11; EDGAR, section 80.24(d)(2)
- Institutions of higher education: OMB Cost Circular A-21, Section J, paragraphs 43 and 14; EDGAR, section 74.23(h)(2) and (3)
- Non-profit organizations: OMB Cost Circular A-122, Attachment B, paragraphs 43 and 11; EDGAR, section 74.23(h)(2) and (3)

**General** (A-87, Attachment B, paragraph 37; A-21, Section J, paragraph 43; A-122, Attachment B, paragraph 43; EDGAR, section 80.24(d)(2) and section 74.23(h)(2) and (3))

- Space or equipment owned by a third party (for example, an entity other than the lead applicant or partner in the grant): the rental or lease cost generally is allowable if reasonable in amount (see “Basic Guidelines” or “Basic Considerations” in cost circulars), in light of the fair rental value of comparable property and other factors indicated in the cost circulars. However, if a local subgrantee normally treats the rental or lease cost as an indirect rather than a direct cost, the cost would not be allowable because of the Even Start prohibition on indirect costs at the local level.
- Space or equipment owned by an entity under a “**less than arms length transactions**” (for example, by a the lead applicant or another partner in the Even Start subgrant): the rental or lease cost is allowable only up to the amount that would be allowed if title had vested in the grantee. That amount would include expenses such as depreciation or use allowance, maintenance, taxes, and insurance (see below).
- For a description of “less than arms length,” see the OMB cost circulars.

**Depreciation and use allowances** (A-87, Attachment B, paragraph 11; A-21, Section J, paragraph 14; A-122, Attachment B, paragraph 11)

- Are based on the acquisition cost of the assets involved. When actual cost records are not available, a reasonable estimate of the original acquisition cost is allowed.
- Depreciation or use allowances exclude –
  - cost of land;
  - any Federally provided portion of cost of buildings and equipment
  - any matching contribution
- Depreciation method: considers acquisition cost and useful life; generally straight line method of depreciation (talk with your fiscal experts).
- Use allowance – limited to:
  - Buildings/improvements – annual rate is **not to exceed 2%** of acquisition cost.
  - Equipment – annual rate **not to exceed 6 2/3%** of acquisition cost.